



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95197; File No. SR-DTC-2022-007]

### **Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Reorganizations Service Guide**

July 5, 2022.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 28, 2022, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change<sup>5</sup> consists of amendments to the Guide to provide Participants with the option to submit voluntary reorganizations instructions via

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).

<sup>5</sup> Each term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of DTC (the “Rules”) and the Reorganizations Service Guide (the “Guide”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

Application Program Interface (“API”) and ISO 20022 real-time messaging (collectively, “Automated Instruction Messaging”) for Automated Subscription Offer Program (“ASOP”)-eligible offers (each, an “ASOP Offer”),<sup>6</sup> and for Automated Puts System (“APUT”)-eligible offers (each, an “APUT Offer”),<sup>7</sup> and to make technical and ministerial changes to the Guide, as discussed more fully below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend the Guide to provide Participants with the option to submit voluntary reorganizations instructions via Automated Instruction Messaging for ASOP Offers and APUT Offers, and to make technical and ministerial changes to the Guide, as discussed more fully below.

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<sup>6</sup> When an agent makes a rights offer through ASOP, a Participant can submit instructions to DTC for transmission to the agent, surrender its rights to the agent’s account at DTC, and have its DTC account debited for the associated subscription payment. When the underlying securities are distributed by the agent, DTC credits the securities to the account of the Participant.

<sup>7</sup> A Participant can submit instructions to DTC for the exercise of payment, retainment and relinquishment options on put options securities for transmission to the agent, surrender its put securities to the agent’s account at DTC and have its DTC account credited with the payment. APUT allows agents to review and reconcile all the instructions that were made for an offer.

(i) Automated Instruction Messaging

A. Background

When an issuer or agent announces an ASOP Offer, it communicates the details of the offer to DTC, which announces the ASOP Offer to its Participants in accordance with the Guide and applicable Rules. Participants then relay the information to their clients, which, in turn, relay the information to their clients, and so forth, down to the investor level. For example, the ASOP Offer information flows from the issuer/agent to DTC, DTC to Participant, Participant to Investor Manager client, Investment Manager to its investor clients. Each level of the chain solicits and compiles instructions from its clients and submits the instructions back up the chain, until the instructions reach the Participant level. Each Participant compiles and aggregates all instructions received from its clients and submits the instructions to DTC through the PTS PSOP or PBS Rights Subscriptions functions via nonautomated key entry.<sup>8</sup> The whole process needs to be completed before the expiration date and time of the ASOP Offer.<sup>9</sup>

There are certain potential risks and costs associated with manual processing, particularly in connection with voluntary reorganizations instructions. Nonautomated input may increase the likelihood of errors, which can result in rejected instructions or erroneous elections. Rejected instructions and erroneous elections can delay the submission of the instructions for voluntary offers, which typically have to be submitted

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<sup>8</sup> PTS (Participant Terminal System) and PBS (Participant Browser System) are user interfaces for DTC settlement and asset services functions. PTS is mainframe-based, and PBS is web-based with a mainframe back-end. Participants may use either PTS or PBS, as they are functionally equivalent. PSOP and Rights Subscriptions are functions of PTS and PBS, respectively, that are currently used by Participants to submit instructions, submit protects, submit cover of protects, submit cover of protects on behalf of another Participant, and submit withdrawals on various subscription events through ASOP. PUTS and Put Bond Options are functions of PTS and PBS, respectively, that are currently used by Participants to exercise put options.

<sup>9</sup> The process is substantially similar for APUT Offers.

within a short timeframe. Further, because information about a voluntary offer and the compilation and transmission of instructions flows across different market segments, the lack of automation and standardization can also lead to errors along the chain.

Therefore, DTC is proposing to provide Participants with the ability to use Automated Instruction Messaging via ISO 20022 messages and API functionality for ASOP Offers and APUT Offers.

The functionality for the submission of instructions through standardized ISO 20022 messaging already exists at DTC. Currently, Participants have the option to submit instructions using ISO 20022 messaging for Automated Tender Offer Program (“ATOP”)-eligible voluntary reorganizations offers (each, an “ATOP Offer”).<sup>10</sup> ISO 20022 is a standard that provides the financial industry with a common language to capture business transactions and associated message flows. The benefits offered by ISO 20022 include, but are not limited to: (i) greater straight through processing by utilizing a data model that conforms to market practice and (ii) improved accuracy and less processing risk due to enhanced data elements.

DTC already offers API functionality for the submission of certain instructions to DTC.<sup>11</sup> For example, Participants can currently engage with the DTC ClaimConnect

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<sup>10</sup> See Guide, supra note 5, at 12. See also Securities Exchange Act Release No. 92339 (July 7, 2021), 86 FR 36810 (July 13, 2021) (SR-DTC-2021-010) (“ATOP Automated Messaging Filing”).

<sup>11</sup> The ATOP Automated Messaging Filing also provided for certain API functionality for ATOP Offers. However, DTC has not yet implemented this API functionality. Pursuant to the proposed rule change, the implementation of API functionality for ATOP Offers (as described in the ATOP Automated Messaging Filing) would be implemented at the same time as the implementation of API functionality for ASOP Offers and APUT Offers in Q3 of 2022. This proposed rule change does not apply to the following ATOP actions: (1) Withdrawal/Cancellation and (2) Submitting a Cover of Protect on Behalf of Another Participant, nor (3) to the ASOP action of Submitting a Cover of Protect on Behalf of Another Participant. DTC anticipates that Automated Instruction Messaging for these actions would be available in Q4 of 2022/Q1 of 2023, subject to regulatory approval.

service via APIs.<sup>12</sup> APIs enable the flow of information between computer applications and provide Participants the ability to easily access and evaluate customer data as well as provide Participants with callable endpoints for deleting data resources and for reading and updating data resource values. Stated another way, APIs provides enhanced flexibility for Participants, making the process of accessing from, and transmitting information to, DTC and its downstream customers more efficient. The flexibility of APIs and its use of modern programming languages provide benefits that include, but are not limited to: (i) less frequent maintenance, (ii) client development and implementation can be quicker to market, and (iii) more efficient integration channels.

#### B. Automated Instruction Messaging

Pursuant to the proposed rule change, Automated Instruction Messaging would be available for the following actions for ASOP Offers: (i) Accepting an ASOP-Eligible Offer, (ii) Accepting an ASOP-Eligible Offer via Notice of Guaranteed Delivery, and (iii) Submitting a Cover of Protect. Automated Instruction Messaging would also be available for the following action for APUT Offers: Accepting an APUT-Eligible Offer.

Automated Instruction Messaging for the ASOP Offers and APUT Offers would consist of (i) Automated Instruction Messages for the input of instructions and (ii) Automated Response Messages for feedback and status output with respect to submitted instructions. The ISO 20022 Corporate Action Instruction (CAIN) message and the API POST function are Automated Instruction Messages. The ISO 20022 Corporate Action Instruction Status Advice (CAIS) message and the API GET function are Automated Response Messages.

The ISO 20022 Automated Instruction Messages and ISO 20022 Automated Response Messages would be available in Q2 of 2022 for the actions referenced above.

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<sup>12</sup> See ClaimConnect Service Guide, p.8, available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

The API Automated Instruction Messages and API Automated Response Messages would be available in Q3 of 2022 for the actions referenced above.

As noted above, automating instructions for ASOP Offers and APUT Offers would streamline the flow of information, reducing the costs, errors and risks that are associated with nonautomated processing. Accordingly, pursuant to the proposed rule change, DTC would provide Participants with the ability to automate and standardize the submission of instructions for ASOP Offers and APUT Offers through Automated Instruction Messaging.

(ii) Proposed Rule Changes

Pursuant to the proposed rule change, DTC is proposing to:

1. Add references to “Automated Instruction Messaging” or “Automated Instruction Message,” as context requires, where other types of instruction input for ASOP Offers (e.g., PTS PSOP/PBS Rights Subscription) and/or for APUT Offers (e.g., PTS PUTS/PBS Put Option Bonds) are referenced.
2. Add references to “Automated Response Message” where other types of responses and/or status reports relating to instructions on ASOP Offers (e.g., PTS/PBS, CA Web or Participant Daily Activity Statement) are referenced.
3. Add references to “a field within Automated Instruction Messaging” where a field or comments box on the PTS PSOP/PBS Subscriptions screen is referenced.
4. Amend the Guide to reflect that when a Participant uses an Automated Instruction Message, it must check its Automated Response Message, in order to ensure that its transactions were properly processed and recorded, and to note that a Participant could additionally check its Participant Daily Activity Statement and the CA Web.

5. Amend the Guide to reflect that input errors for Automated Instruction Messaging entries would be reported via Automated Response Message.

6. In the “Automated Instruction Messaging” Section:

a. Add an asterisk to the title and, as a footnote, insert the sentence “API functionality for the referenced ATOP, ASOP, and APUT actions would be available in Q3 of 2022.”

b. Add a note that “Withdrawals for Puts (Survivor Options only) must be performed via PTS/PBS, and cannot be instructed via Automated Instruction Message.”

c. Insert a list of the actions for ASOP Offers for which Automated Instruction Messaging is available, which would be: Accepting an ASOP-Eligible Offer, Accepting an ASOP-Eligible Offer via Notice of Guaranteed Delivery, and Submitting a Cover of Protect.

d. Insert language to reflect that Automated Instruction Messaging would be available for the action “Accepting an APUT-Eligible Offer” for APUT Offers.

7. In the “About the Service” subsection of the “Puts” section, clarify that Participants use the Puts program for APUT-eligible offers, and that Participants can use PTS/PBS functions or Automated Instruction Messaging in connection with the Puts program.

8. In the “Exercising Put Options” subsection of “Puts” section, clarify that Participants should use PTS PUTS/PBS Put Options Bonds or Automated Instruction Messaging for put options that have an offer to purchase

with no withdrawal privilege, and that they should use PTS PTOP/PBS Voluntary Tenders and Exchanges or Automated Instruction Messaging for put options that have an offer to purchase with a withdrawal privilege.

9. In the “Subscription Instructions” subsection of the “About DTC’s Automated Subscription Offer Program (ASOP)” section, insert language to reflect that when a Participant is accepting a right offer by surrendering rights or by Notice of Guaranteed Delivery, Participants instructing via PTS PSOP or PBS Rights Subscriptions can combine up to 12 separate customer reference instructions, and to add that Participants instructing via Automated Instruction Messaging would be able to combine up to 99 separate customer reference instructions into one Automated Instruction Message.

10. In the “Checklist for Submitting an Acceptance” subsection of the “Accepting an ASOP-Eligible Offer” section, amend the “Note:” to add that when a Participant transmits via Automated Instruction Messaging, it can combine up to 99 separate customer reference instructions into one Automated Instruction Message.

11. In the “Checklist for Submitting a Protect” section, insert the following language to address how a Participant needs to acknowledge the Notice of Guaranteed Delivery when it transmits an acceptance by Notice of Guaranteed Delivery via Automated Instruction Messaging: “Likewise, when you transmit an acceptance via Automated Instruction Messaging, you will be required to acknowledge the Notice of Guaranteed Delivery required by the offer identified by the CUSIP you specify in your acceptance. The message must contain your acknowledgement. If your message does not contain your acknowledgement, your acceptance will be rejected. By acknowledging the Notice of Guaranteed Delivery via Automated Instruction Messaging, you agree



that (i) you have received, and will be bound by the terms of, the Notice of Guaranteed Delivery required by the offer identified in the acceptance and (ii) the agreement set forth in the preceding clause (i) may be enforced against you by the Offeror in such offer.”

12. In the “Checklist for Submitting a Cover of Protect via PTS PSOP, or PBS Rights Subscriptions” section, insert the following language to address how a Participant needs to acknowledge the Subscription Form when it transmits a cover of protect via Automated Instruction Messaging: “Likewise, when you transmit an instruction to cover a protect via Automated Instruction Messaging, you will be required to acknowledge the Subscription Form required by the offer identified by the CUSIP you specify in your instruction. The message must contain your acknowledgment. If you do not submit your acknowledgement, your instruction will be rejected. By submitting the acknowledgment via Automated Instruction Messaging, you agree that (i) you have received, and will be bound by the terms of, the Subscription Form required by the offer identified in your instruction and (ii) the agreement set forth in the preceding clause (i) may be enforced against you by the Offeror in such offer.”

13. In the “Checklist for Submitting Sell Instructions” subsection of the “Surrendering Rights for Sale via ASOP” section, insert the following language to address how a Participant needs to acknowledge the Subscription Form when it transmits sell instructions: “Likewise, when you transmit sell instructions via Automated Instruction Messaging, you will be required to acknowledge the Subscription Form required by the offer identified by the CUSIP you specify in your acceptance. If your message does not contain your acknowledgment, your acceptance will be rejected. By acknowledging the Subscription Form via Automated Instruction Messaging, you agree that (i) you

have received, and will be bound by the terms of the Subscription Form required by the offer identified in the acceptance and (ii) the agreement set forth in the preceding clause (i) may be enforced against you by the Offeror in such offer.”

14. Add a reference to “Automated Instruction Messaging” to the following section headings: “Submitting a Cover of Protect via PTS PSOP or PBS Rights Subscriptions for an ASOP-Eligible Offer,” and “Checklist for Submitting a Cover of Protect via PTS PSOP or PBS Rights Subscriptions.”

15. Make ministerial changes to correct typos and omissions and to enhance conformity and readability, including, but not limited to:

- a. Deleting footnote 1 as redundant.
- b. Adding the name of the corresponding PBS function where the equivalent PTS function is referenced.
- c. Augmenting mentions of PBS and PTS functions with their full technical names.
- d. Inserting references to the CA Web to correctly reflect that a Participant can check the CA Web, in addition to its Participant Daily Activity Statement and Automated Response Messages, to ensure that its transactions were properly processed and recorded.
- e. Inserting references to ISO 20022 messaging and the CA Web to correctly reflect them as sources of ASOP Offer details.
- f. Inserting references to ISO 20022 messages to reflect them as source for a Participant to receive information about its reorganization account and subaccount activities.

- g. Stating that Participants that subscribe to the ISO 20022 Instructions Statement Report (CAST) or Automated Response Messages would be able to verify instructions status on the message.
- h. Enhancing clarity and readability.
- i. Correcting typographical errors.

## 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>13</sup>

The proposed rule change would amend the Guide to provide Participants with the option to use Automated Instruction Messaging for ASOP Offers and APUT Offers. As discussed above, the use of Automated Instruction Messaging for ASOP Offers and APUT Offers would provide greater straight-through processing, improved accuracy, more efficient integration channels and less processing risk than nonautomated processing.

DTC believes that the proposed rule change to amend the Guide to make technical and clarifying changes would enhance the clarity and transparency of the Guide. By enhancing the clarity and transparency of the Guide, the proposed rule change would allow Participants to more efficiently and effectively conduct their business in connection with processing reorganization events and associated securities transactions.

Based on the foregoing, DTC believes that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act, cited above.

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<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

(B) Clearing Agency's Statement on Burden on Competition

DTC believes that the proposed rule change to provide Participants with the option to use Automated Instruction Messaging for ASOP Offers and APUT Offers would not have any impact on competition. Because Automated Instruction Messaging would be an optional service that would be available to all Participants in connection with ASOP Offers and APUT Offers, DTC does not believe that the proposed rule change would impose a burden on competition.<sup>14</sup> In addition, DTC believes that the proposed rule change to make technical and ministerial changes to the Guide, would not have any impact on competition because it would merely enhance the clarity of the procedures relating to ASOP Offers and APUT Offers. In light of the foregoing, DTC does not believe that the proposed rule changes would impose a burden on competition.<sup>15</sup>

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

DTC has not received or solicited any written comments relating to this proposal. If any written comments are received, they would be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit>

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<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>15</sup> Id.

comments. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

DTC reserves the right to not respond to any comments received.

### III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>16</sup> of the Act and paragraph (f)<sup>17</sup> of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

#### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2022-007 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-DTC-2022-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2022-007 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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<sup>18</sup> 17 CFR 200.30-3(a)(12).

